



**Bob Holden**  
Governor

**Kelvin L. Simmons**  
Director

DIVISION OF CREDIT UNIONS  
Post Office Box 1607  
Jefferson City, MO 65102  
573-751-3419  
573-751-6834  
E-mail [cu@ded.mo.gov](mailto:cu@ded.mo.gov)

John P. Smith  
Director

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TO: The Board of Directors and Management of Missouri state-chartered credit unions

SUBJECT: Board of Directors Responsibilities

Governance and board fiduciary responsibilities have attracted much attention during the past year. Credit union boards although volunteers elected by the membership are not immune from the scrutiny by the members and the public. Additionally, quarterly credit union financial information is very available to the members and the public through the internet at <http://www.ncua.gov/indexdata.html>. Boards give freely of their time and talent without recognition and compensation and are commended for doing so.

The purpose of this bulletin is to address several areas of responsibility that boards should be aware of and prepared to exercise. Our intent is not to sermonize but to inform boards of what is considered to be good practical policy and practice; these items can be implemented through planning, education, policy and practice.

## **BOARD/PRESIDENT RELATIONS**

Ultimately the board of directors as the governing body is directly responsible for the success of the credit union. The president of the credit union is the board's only employee who is hired to run the credit union in the way and manner that the board has determined is best for the members. It is critical for this relationship to remain as one of an employer/employee. The president's performance should be monitored continuously and measured against the goals set by the board as well as member satisfaction and financial performance. Periodic member surveys should provide feedback as to the member's perception of the credit union. A very good measure of financial performance is the quarterly financial performance report ratios that are available to all credit unions on the internet at <http://www.ncua.gov/indexdata.html>.

This 8.5 X 11" sheet of paper provides key ratios that allow boards to readily compare the credit union's performance over time (trend analysis) and benchmark comparisons to other credit unions. This report can tell boards if the credit union is improving and whether the credit union's performance is adequate. This report should be made a part of the board minutes and documented discussion of areas that need improvement including how improvements will be accomplished.

## **GOAL SETTING**

An important part of governance is setting goals for the credit union. These can take the form of general-purpose semi-permanent goals that may be statements of principles as well as time sensitive goals. Not only does this help insure progress but provides a basis for measurement of success. Of the many goals we have seen over the years we believe one crucial question should always be satisfactorily addressed and that is "how does this action benefit our present members". Too many times goals are set that frankly do not or minimally enhance the present members well being.

## **SUCCESSION PLANNING**

Credit unions are managed under the premise of 'an ongoing concern.' This concept is reflected in business plans, financial reports, and service to members. One of the keys to ensuring that a credit union is truly 'an ongoing concern' is succession planning.

Succession planning refers to key staff members as well as officials. The lack of an adequate plan for either can bring about the demise of the credit union. Recently, Missouri credit unions have suffered (and failed in some instances) from the lack of succession planning.

Succession planning should entail several steps:

For staff –

- ◆ Develop a job description for each position, including the president/manager;
- ◆ [Ensure the president has developed job descriptions and cross-trained staff;](#)
- ◆ Determine that officials are familiar with daily functions if there are only one or two employees; Adopt a draft of advertisements to be used to seek replacements for key positions;

- ◆ Adopt a draft advertisements to be used to seek replacements for key positions;
- ◆ Determine the scope of the search for management personnel (local newspapers, national search, credit union publications, etc.)
- ◆ Develop a search plan that includes timeframes and responsible individuals (interviews by the executive committee, by the entire board, etc.)

For officials –

- ◆ Create a standing nominating committee that searches for new officials on a regular basis; develop a “culture” of continuous recruitment.
- ◆ Develop a pool of individuals seeking nomination to the board of directors or committees;
- ◆ Consider setting term limits so there is constant rotation of individuals serving as officials. Everyone has a limit to what they may contribute. When that limit is reached it is time to seek new talent. This will also aid in combating lack of objectivity and independence as well as excessive complacency.

The ongoing success of credit unions is greatly impacted by the ability to fill key management positions in the event of resignation or retirement. The existence of a detailed succession plan that provides trained management personnel to step in at a moment's notice is essential to the long-term stability of a credit union. Likewise, building a strong base of volunteers is imperative to a credit union's success.

### **EDUCATION AND TRAINING:**

On-going education and training is essential to the development of each individual. Thus, it is vital that credit union board and committee members actively seek to increase their knowledge of finance and management.

Numerous means are available to develop a volunteer's knowledge. The cost of programs available varies from free to thousands of dollars. Each credit union must determine what is appropriate. Alternatives, at a minimum, include the following:

- ◆ Volunteer Achievement Program through the Missouri Credit Union Association;

- ◆ “Money Smart” developed by the Federal Deposit Insurance Corporation;
- ◆ Small Credit Union Program offered through the National Credit Union Administration;
- ◆ Local and national conferences offered by consultants and vendors.

Each board of directors should adopt a written policy outlining the education/training requirements for volunteers. The policy should specify what is required and/or permitted and the timeframe within which the training must be taken. Failure to comply with the policy could result in the removal of the volunteer from his/her position or the ineligibility for nomination as an incumbent at the next election.

Staying abreast of changes in the financial industry, being aware of regulatory updates, and improving overall financial knowledge is a responsibility of each credit union official. Continuing education and training improves the board and committee’s ability to manage a sound financial institution. Consider periodic (quarterly) education topics at board meetings.

## **CONCLUSION**

As part of a governing body the individual board member accepts serious responsibilities. If these responsibilities are met in an educated, objective, and independent manner the opportunity to positively affect hundreds if not thousands of people’s financial well-being exists. This can be a very fulfilling experience if the board always acts first and foremost in the best interest of the members. As the saying goes with great responsibility comes great rewards. Those board members that meet the standards of this bulletin are performing a selfless service that although may not be readily apparent to everyone creates a debt that cannot be repaid. Our congratulations and gratitude are extended to all that serve.

If anyone has any questions or needs further information on this topic please contact our office.



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John P. Smith, Director

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